

CERC Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation (First Amendment) Regulations, 2025

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The CERC notified draft on Terms and Conditions for Renewable Energy Certificates for Renewable Energy Generation (First Amendment) Regulations, issued on 22nd September, 2025. The main objectives of the proposed regulations are:

Objective: The draft regulation aims to align the Renewable Energy Certificate (REC) framework with the Renewable Consumption Obligation (RCO) regime under the Energy Conservation Act, 2001, and strengthen RECs as a credible compliance instrument. It expands the scope of obligated entities by including Designated Consumers, enables REC based RCO compliance, and allows renewable captive generators with self-consumption to participate even if captive criteria are not fully met. The regulation introduces a principle-based REC multiplier methodology, provides long-term certainty through fixed validity of multipliers, clarifies treatment of RECs under Virtual Power Purchase Agreements, and strengthens guarantee-of-origin and accounting to ensure transparent, leakage-proof RPO and RCO compliance.

The document can be accessed [here](#).

CER Opinion

- Issue of RECs for Over Compliance and Impact on Market Liquidity:** In Clause 4. (4.1) *Clause (3) of Regulation 10 of the Principal Regulations shall be substituted as under: “(3) Application for issuance of Certificates shall be made by an eligible entity, being a distribution licensee or an open access consumer, within three months from the date of certification by the concerned State Commission about the purchase of electricity from renewable energy sources in excess of the renewable purchase obligations as determined by the concerned State Commission.*
Provided that no Certificate shall be issued in case the application is made beyond the period of three months from the date of certification by the concerned State Commission.”

The obligated entities procure RE throughout the year and are obligated to ensure compliance for a financial year by submitting proof of the same after the end of the year. The respective ERC would then verify compliance. This would keep such RECs locked for a substantial period. In fact, most of the obligated entities (OE)/ designated consumers (DC), who would have over complied, would receive equivalent RECs for the over compliance at around the same time. Such entities may like to offload the same around the same period creating excess liquidity pressure in the REC market. In contrast, a significant REC demand is generally witnessed before the end of the financial year as the OE/DC rush to ensure their compliance before the end of the financial year. **The cyclic nature of the liquidity pre- and post- the financial year should be avoided as it would also influence the price discovery for RECs.** The regulatory approach should ensure that such artificial demand-supply imbalances

do not crop up due to the regulatory framework.

As an alternative, if each of the entity is issued RECs for the RE generation after the end of each month, the obligated entities/designated consumers would have the responsibility to submit the RECs to the respective ERC towards their obligation. The OE/DCs would be in a better position to estimate over compliance, if any, and offload the RECs before end of a particular financial year while also ensuring that excess RECs find their way to the market in a timely manner. Given the compliance penalty, the OE/DCs would decide to keep necessary buffer of RECs to tide over any uncertainty during the remaining part of the financial year. **The RECs thus become a currency for compliance and guarantee of origin^{1,2}.**

The diagram below depicts an example of the dynamic nature of over-/under-compliance across quarters of a year that may lead to overall overcompliance. Note that there may be a similar case with potential under-compliance necessitating purchase of RECs during the last quarter or earlier. The resultant liquidity mismatch could distort market dynamics and lead to volatility in REC prices.



To address the above concern, **it is suggested that the issuance and trading of RECs for surplus renewable energy be allowed at least on a quarterly basis**. This would enable smoother adjustment of excess or deficit compliance over shorter intervals, helping to stabilize liquidity in the REC market. Further, to prevent sudden surges of liquidity and to ensure that the OE does not face deficit on compliance for the remaining part of the year, a limited proportion (say 50%) of the cumulative excess RECs may be allowed for sale in each quarter.

2. **Transfer and Extinguishment of Certificates under REC Mechanism:** In Proposed Clause 6 (6.1) (e) *The Central Agency shall extinguish such Certificates after they are used for compliance with the Renewable Purchase Obligation or Renewable Consumption Obligation by the consumers or the designated consumers, and update its record.”*

As per the provision, the Central Agency shall extinguish such Certificates after they are used for compliance with the Renewable Purchase Obligation (RPO) or Renewable Consumption Obligation (RCO) by the concerned consumers or designated entities.

¹ Singh A., A Market for Renewable Energy Credits in the Indian Power Sector”, *Renewable and Sustainable Energy Review* journal, Elsevier, 13 (2009) 643–652

² Singh A., Economics, Regulation and Implementation Strategy for Renewable Energy Certificates in India”, India Infrastructure Report 2010, OUP for detailed discussion on the use of REC as a currency of compliance and guarantee of origin.

However, in cases where entities (e.g., A and B) have a Virtual Power Purchase Agreement (VPPA), and Certificates are to be transferred from A to B, the Central Agency may facilitate the transfer directly. In such scenarios, if a dispute arises between the two parties such as non-fulfilment of obligations or non-payment, the Central Agency (or REC Registry/NLDC) could inadvertently be exposed to a dispute associated with commercial transaction between the parties involved.

To avoid such situations, it is suggested that transfer of Certificates under VPPAs should be initiated by the original generator (i.e., the seller under the VPPA). This ensures that, in case of any commercial or contractual dispute, only the two contracting parties (generator and buyer) are involved, thereby keeping the REC Registry and Central Agency insulated from legal exposure.

This approach would maintain regulatory clarity and safeguard the REC Registry from being entangled in commercial or legal disputes between market participants.